

POLICY ON COLLECTION OF CHEQUES /INSTRUMENTS
2020



OPERATIONS DEPARTMENT
CENTRAL OFFICE, KARUR – 639 002

POLICY ON COLLECTION OF CHEQUES/ INSTRUMENTS

1. Introduction

The clearing and settlement system has seen a migration of cheque and data transmission from manual to electronic mode with the implementation of Cheque Truncation System. Grid CTS provides for faster realization of cheque instruments based on electronic transmission of cheque images and by enhancing the local coverage area across geographies. At present, there are three CTS Grids viz New Delhi, Mumbai and Chennai. Each grid spans across geographies in including a cluster of clearing houses across various states under CTS settlement. Under CTS clearing, the Bank receives settlement in three centers viz New Delhi, Mumbai and Chennai.

The cheque collection policy of the Bank should reflect the on-going efforts to provide better service to our customers to set higher standards for performance. The policy is based on principles of transparency and fairness in the treatment of customers. The bank is committed to increasing use of technology to provide quick collection services to its customers. This policy document covers the following aspects:

1. Policy on collection of cheque and other instruments
2. Our commitment regarding time norms for collection of instruments.
3. Policy on payment of interest in cases where the bank fails to meet time norms for realization of proceeds of outstation instruments.
4. Our policy on dealing with collection instruments lost in transit.
5. Policy on frequent return of of cheques and frequent return of electronic instruments like ECS / NACH

2. Arrangements for Collection:

2.1. Local Cheques :

Cheques deposited at branch counters and in collection boxes within the branch premises before the specified cut-off time will be presented for clearing on the same day. Cheques deposited after the cut -off time will be presented in the next clearing cycle.

As a policy, bank would give credit to the customer account on the same day clearing settlement takes place. Withdrawal of amounts so credited would be permitted as per the cheque return schedule of the clearinghouse.

Bank branches situated at centers where no clearing house exists, would present local cheques on drawee banks across the counter and it would be the bank's endeavour to credit the proceeds at the earliest.

Cheques, irrespective of the type of the drawer account, of all drawee Banks under CBS will be accepted for collection at any center without any charges.

All cheques received by any of the branches of the bank in inward clearing will be treated at par, and clearing charges will not be levied to the accounts for debiting such cheques.

(i) Point of truncation under CTS:

The Bank will have multiple points of truncation for cheques under CTS presentment. The truncation point can be at service branches, at individual branches, at a pooling hub center, a cheque deposit kiosk.

(ii) Cut off for presentment:

All cheques presented two hours prior to the schedule session closure time for outward session will be taken up for presentation on the same date. All cheques valued two lakhs and above and presented one hour before the scheduled session closure time will also be presented on the same day. In order to give latitude for contingencies, the Bank will not scan any instrument starting half an hour before the scheduled closure of the presentment session.

(iii) Cheques with alterations:

As per instruction in RBI circular DPSS.CO.CHD.No.1832 / 04.07.05 / 2009-10 dated February 22, 2010 on "Standardization and Enhancement of Security Features in Cheque Forms" and specifically to Paragraph 1.8 contained in the annexure thereto on 'prohibiting alterations / corrections on cheques', the bank will not accept cheques with alterations (except for date specifically for revalidation of the instrument) for presentment through CTS.

2.2: Outstation Cheques:

With the implementation of CTS, the number of outstation cheques sent for collection is considerably reduced. However, in cases where there is no branch of the drawee bank within the same grid (principally in the case of district / single state cooperative banks), the cheques will be sent on collection to the respective grid service branch for realization.

The charges for outstation collection instruments have since been rationalized by RBI and the extant applicable charges will be levied. Any change to the service charges will be notified to the customers by SMS / E-Mail / display of information on the branch notice board.

2.3 Cheques payable in Foreign Countries.

The policy on US Dollar cheques collection scheme is made transparent in so far as it relates to time taken for collection of the US dollar cheques, charges for different modes of collection, service charges, paying interest on sighting the amount in Nostro accounts, compensation by way of additional interest for the delay and instant credit for cheques/drafts etc.

2.3. A: Cheques/drafts drawn on foreign countries are accepted for collection on the “Best effort basis”. Such instruments will be forwarded to the correspondent banks for speedy collection as per the collection arrangements with them.

Presently we handle cheques/drafts denominated in USD, GBP, EURO, AUD and CAD currencies, the instruments will be collected under “cash Letter Service” arrangement. For USD currency, we have arrangement with South Indian Bank Ltd and other currencies are directly through our respective nostro correspondent banks.

Other than above 5 currencies, bank is not having clearing/collection arrangement for other currencies.

It is our endeavour to convert the foreign currency amount after taking into account the cooling periods as applicable to different countries.

Depending on the country the cooling period varies from 20 to 35 days for different currencies. The cooling period is the time the bank waits to know the return of the cheque(s) by the payee bank before giving credit to the customer. The time for return of the instruments cleared provisionally also vary from country to country.

As per the US treasury laws the instruments can be returned even after 1 year period in respect of altered cheques and forged instruments after 3 years.

Depending on the standing of the customers, bank will credit the amount to the customer’s account on “Instant Basis”, without waiting for the completion of the cooling period on specific request from the branches. Bank will convert the foreign currency amount so credited to its Nostro account after the cooling period by applying the TT buying rate and credit the rupee proceeds to the customer’s account.

2.3. B: Payment of interest in the case of delayed collection: Bank will take all reasonable care to credit the proceeds of the foreign currency instruments once the cooling period is over. In case of delay for any other reason, compensation will be paid as per FEDAI Rules applicable to inward remittances.

2.3. C: Small value cheques: Customers’ receive cheques of small value USD and other foreign currency cheques say for eg. 10 USD or 25 USD or equivalent of foreign currencies received as gifts.

In case of return of such small value instrument for any reason or are payable in a country where we do not have correspondent banks, then the charges payable may be more than the value of the cheque and in the process of collection the bank will be liable to pay to the drawee bank / correspondent banks towards their handling charges. In such cases these facts will be brought to the notice of the customer before handling small value instruments.

2. 3. D: Collection charges: Applicable charges for collection of cheques will be levied. (Subject to change and will be notified in the web site of the bank of such changes)

2.3. E: For receiving Foreign currency by associations / organizations / trusts: It requires registration of the group with the Ministry of Home affairs, New Delhi. Then only any foreign contributions received will be credited to the account of the beneficiary as per FCRA 2010.

Foreign remittances from the Indians staying abroad can be credited to the account which does not attract the FCRA 2010 subject to submission of valid Indian passport whereas foreign currency remittance by the residents will not be accepted as it tantamount to violation of the FCRA 2010.

2.3.F :Cheques drawn on foreign countries: The Bank is committed to ensuring that instruments drawn in foreign currencies and payable outside India are collected in the quickest and most efficient manner. Towards this the bank may enter into specific collection arrangements with its correspondent banks in those countries for speedy collection of such instrument(s). Bank would give credit to the party upon realization of proceeds in the bank's Nostro Account with the correspondent Bank after taking into account cooling periods as applicable to the countries concerned.

Country / location specific norms wherever stipulated will be specified for foreign currency instruments and made known to the customers at the point in time of accepting instruments for collection.

2.4: Purchase of local/outstation cheques:

Bank may, at its discretion, purchase local/outstation cheque tendered for collection at the specific request of the customer or as per prior arrangement . *Where there is no prior arrangement, and customers will be required to provide a request letter in writing with wet signature of the signatories of the account.* Besides satisfactory conduct of account, the standing of the drawer of the cheque will also be a factor considered while purchasing the cheque.

3. Time Frame for Collection of Local / Outstation Cheques / Instruments:

For local cheques presented in clearing, credit will be afforded as on the date of settlement of funds in clearing and the account holder will be allowed to withdraw funds as per return clearing norms in vogue at that centre.

For cheques that are to be sent physically to the respective Grid service branch (for case enlisted section 2.2 above) , the realization period after the instrument is received by the service branch will be the next clearing cycle / one working day whichever is earlier.

The above time norms are applicable irrespective of whether cheques / instruments are drawn on the bank's own branches or branches of other banks.

4. Payment of Interest for delayed Collection of local / Outstation Cheques and cheques payable outside India:

As part of the compensation policy of the bank, the bank will pay interest to its customer on the amount of collection instruments in case there is delay in giving credit beyond the time period mentioned above. Such interest shall be paid without any demand from customers in all types of accounts. There shall be no distinction between instruments drawn on the bank's own branches or on other banks for the purpose of payment of interest on delayed collection.

Delay in presentment of local cheques (presentable through local clearing / CTS):

In case it is proved that there is a delay in presentation of a local clearing instrument by the Bank beyond 2 working days of depositing the instrument, and where the delay is attributable to internal systems of the Bank and not the banking system as a whole, and is not attributable to force majeure events, the Bank shall pay interest on the cheque amount at the extant savings rate for the period of delay.

Outstation instruments:

- a. Savings Bank rate for the period of delay beyond 7/10/14 days as the case may be will be paid in collection of outstation cheques.
- b. Where the delay is beyond 14 days and upto 30 days interest will be paid at the rate applicable to for term deposit for the respective period.
- c. In case of extraordinary delay, i.e. delays exceeding 30 days interest will be paid at the rate applicable for Term deposits rate applicable for 30 days' time bucket as on date of payment.
- d. In the event the proceeds of cheque under collection were to be credited to an overdraft/loan account of the customer, interest will be paid at the rate applicable to the loan account.

5. Cheques / Instruments lost in transit in clearing process or at paying bank's branch:

In the event a cheque or an instrument accepted for collection is lost in transit or in the clearing process or at the paying bank's branch, the bank shall immediately on coming to know of the loss, bring the same to the notice of the accountholder so that the accountholder can inform the drawer to record stop payment and also take care that cheques, if any, issued by him / her are not dishonored due to non-credit of the amount of the lost cheques / instruments. The bank will compensate the accountholder in respect of instruments lost in transit in the following manner.:

a. In case intimation regarding loss of instrument is conveyed to the customer beyond the time limit stipulated for collection (7/10/14 days as the case may be) interest will be paid for the period exceeding the stipulated collection period at the rates specified above.

c. The bank would also compensate the customer for any reasonable charges he/she incurs in getting duplicate cheque/instrument upon production of receipt, in the event the instrument is to be obtained from a bank/ institution who would charge a fee for issue of duplicate instrument.

6. Force Majeure

The bank shall not be liable to compensate customers for delayed credit if some unforeseen event (including but not limited to civil commotion, sabotage, lockout, strike or other labour disturbances, accident, fires, natural disasters or other "Acts of God", war, damage to the bank's facilities or of its correspondent bank(s), absence of the usual means of communication or all types of transportation, etc) beyond the control of the bank which prevents it from performing its obligations within the specified service delivery parameters.

7. Request for Blockage from presentation - Force-majeure

In case of a disruption / disaster, in force-majeure circumstances beyond the control of the Bank, and when all efforts fail to bring live its backup systems for business continuity, the Bank will as a preventive measure request for Blockage of presentation both for outward cheque presentment and inward cheques drawn on the Bank thus leading to delays in credit / debits respectively to customer accounts.

8. Procedure for return/dispatch of dishonored cheques

As per Goiporia committee branches / cco's have to ensure that the cheques dishonoured instruments are required to be returned / dispatched to the customer promptly without any delay, in any case with in 24 hours.

8.1.Return of cheques / electronic debits on account of lack of funds in the accounts:

The Bank reserves the right to penalize the account holders by imposing extant cheque return charges. As per RBI guidelines, the cheque return charges will be levied only in cases where the customer is at fault.

Frequent return of cheques by the customers, in their account damages the reputation of the bank. In order to discipline such customers, the bank will take necessary actions to intimate the customer multiple times to set right the operations in the account. In the event of frequent cheque returns even after the advices sent, the bank reserves the right not to issue further cheque books to such customers. In case of cheque returns even after three notices, the Bank reserves its right to advise the customer to close their accounts. In case of recalcitrant customers who do not close the accounts, the Bank will exercise its right and close the account and send the proceeds by way of a Demand Draft. The entire process will be carried out in a systematic manner and the Bank's decision will be final and cannot be repudiated. However, the customer will be given sufficient opportunities for representation and redressal during each stage of action.

The above process will equally apply to frequent ECS / NACH debit returns also.

8.2 Dealing with incidents of frequent dishonour of cheques of value Rs.1 crore and above:

- i) With a view to enforce financial discipline among the customers, banks should introduce a condition for operation of accounts with cheque facility that in the event of dishonour of a cheque valuing rupees one crore and above drawn on a particular account of the drawer on four occasions during the financial year for want of sufficient funds in the account, no fresh cheque book would be issued. Also, the bank may consider closing current account at its discretion. However, in respect of advances accounts such as cash credit account, overdraft account, the need for continuance or otherwise of these credit facilities and the cheque facility relating to these accounts should be reviewed by appropriate authority higher than the sanctioning authority.
- ii) For the purposes of introduction of the condition mentioned at (i) above in relation to operation of the existing accounts, banks may, at the time of issuing new cheque book, issue a letter advising the constituents of the new condition.
- iii) If a cheque is dishonoured for a third time on a particular account of the drawer during the financial year, banks should issue a cautionary advice to the concerned constituent drawing his attention to aforesaid condition and consequential stoppage of cheque facility in the event of cheque being dishonoured on fourth occasion on the same account during the financial year. Similar cautionary advice may be issued if a bank intends to close the account.

8.3 Dealing with frequent dishonour of cheques of value of less than Rs. 1 crore:

Since frequent dishonour of cheques of value of less than ` 1 crore is also a matter of concern, it is felt that banks need to take appropriate action in those accounts where such dishonour of cheques occur. Further, it is also felt that though it may not be necessary to extend all the steps laid down in our earlier circular to smaller cheques, banks should have their own approach to deal with recalcitrant customers.

9. Bills for collection:

Bills for collection including Bills discounted required to be collected through another bank at the realizing center will be forwarded direct by the forwarding branch to the realizing branch.

9.1 Payment of interest for delays in collection of bills:

The lodger's branch will pay interest to the lodger for the delayed period in respect of collection of bills at the rate of 2% p.a. above the rate of interest payable on balances of savings bank accounts. The delayed period will be reckoned after making allowance for normal transit period based upon a time frame of two days each for

1. Dispatch of bills.
2. Presentation of bills of drawee.
3. Remittance of proceeds to the lodger's bank.
4. Crediting the proceeds to drawer's account.

To the extent the delay is attributed to the drawee's bank, the lodger's branch will recover interest for such delay from the bank."

10. General:

For the purpose of adducing evidence to prove the fact of dishonor of cheque on behalf of a complainant (i.e. payee/holder of a dishonored cheque) in any proceeding relating to dishonored cheque before a court, consumer forum or any other competent authority, branches should extend full co-operation, and should furnish him/her documentary proof of fact of dishonor of cheques.

10. Dealing with complaints and Improving Customer Relations Complaints/ Suggestions box:

Complaints/Suggestions box should be provided at each office of the bank. The branches have to ensure that they are provided with complaints/ Suggestion box in their premises. Further, a notice requesting the customers to meet the branch manager should be displayed regarding grievances, if the grievances remain un-redressed.

11. Inward instruments :

The inward clearing instruments under CTS will be handled centrally at the respective grid focal centers. All inward clearing cheques will be passed based on the opening balance for the day (i.e based on the closing balance available on the previous day of receipt of the instrument).

12. Fake / Fraudulent instruments

(i) Dealing with purported fraudulent instruments found during scrutiny:

The Bank will put in place appropriate system at each truncation point to eliminate fraudulent cheques from getting collected to any account. Instruments that are a suspect will not be presented through CTS clearing.

However, in case of reasonable suspicion on an instrument, where there is also sufficient ground to treat the same as genuine, confirmation will be sought from the drawee bank / drawer on the genuineness of the instrument before presenting the same. In case the bank is still suspicious on the nature of the instrument, the instrument will be presented as a paper to follow instrument by physically sending the instrument to the drawee bank so the genuineness of the cheque can be verified by the issuing Bank. This process of due diligence could entail delay with cheque realization.

(ii) Dealing with fake / forged instruments collected in accounts:

As per procedural guidelines in CTS, the presenting Bank is prima-facie responsible to ensure the genuineness of a clearing instrument. Even after all due care exercised while scrutiny of collection instruments, in case of a claim from the drawee Bank with respect to a purported fake / forged instrument collected in an account, if the instrument is proved to be a fake / forged instrument and in case sufficient balance is available in the beneficiary account, the account will be debited for the instrument amount and payment will be made to the drawee bank subject to receiving an indemnity from the drawee bank.

In case of a claim from the drawee Bank with respect to a fake / forged instrument collected in an account, and if the instrument is prima- facie genuine, the Bank will not settle the claim by the drawee bank. The Bank will however cooperate with the drawee Bank in providing the requisite details during investigation. In case, if the drawee Bank prefers to refer the case to PRD (Panel for Resolution of Disputes), the Bank will depute a specialized officer to represent the case. The Bank will not part with the physical instrument with the drawee Bank or any other entity unless a directive is received from statutory / enforcement / regulatory authorities / PRD.

(iii) Dealing with fake / forged / altered instruments received for payment to a drawer account:

Seemingly fake / fraudulent instrument if any received in inward clearing would be intimated to the drawer of the instrument to get a confirmation for having issued the instrument and amount in the name of the payee. In case, if it is found that the drawer has not issued the instrument, the presenting Bank will be prima-facie advised to ensure the KYC of the beneficiary and file an FIR. The instrument will be returned to the presenting Bank with appropriate reason.

The account holder would be informed of the attempt to encash fake / fraudulent instrument in his account. Our Bank in the capacity of drawee Bank will file an FIR of the incident.

(iv) Dealing with fake / forged instruments paid from a drawer account:

Both in case of fake/forged instruments, the presenting Bank would be responsible to ensure the genuineness of the instrument. In case if a purported fake instrument is paid by our bank, the presenting Bank would be advised to file an FIR, in addition to the FIR filed by our Bank in the capacity of a drawee bank. The presenting Bank would be advised to re-credit the funds to our Bank. In the event when the presenting Bank rejects our claim, our Bank will prefer representation of the case to the PRD (Panel for Resolution of Disputes). The Bank will depute a specialized officer to represent the case.

13. Functioning of grid focal center on Non-Uniform Holidays

(i) Outward presentment:

(a) Presentation of cheques by branches on non-uniform holidays:

The grid focal centers will function on all business days except on the uniform holiday dates for the grid. Hence on all working days for the grid focal center, grid focal center will be functional, and so the focal center will send all the instruments scanned by the branches for settlement.

(b) Presentation of cheques on uniform holiday dates:

In case where there is a holiday for the grid focal center as per the uniform holidays list for the grid, and of any of the states within a grid is functional, the outward clearing instruments will not be presented on the scanned date, as in the absence of a clearing session, the images will not be accepted for settlement.

However, such branches that are functional on any date which is a uniform holiday for the grid, may scan, process and lodge the cheques for presentment. The instruments that are lodged will be taken up automatically for settlement during the next available presentment session. This may lead to delay in realization of the cheque instrument for the customer, the delay not directly attributable to the Bank.

(ii) Inward Presentment:

The Bank will not request for Blockage of presentation in inward on non-uniform holidays. However, if it is found that there are more number of instruments that require referral to the base branch, the respective grid focal center will seek extension of one business day for the grid for submitting returns against all inward instruments received for the date. Hence, there will be a possibility of delay in debiting the customer account.

14. Collection of instruments

With a view to encouraging faster migration to CTS-2010 standard cheques, banks are advised that non CTS-2010 standard instruments will be cleared at less frequent intervals in the CTS clearing centres. Banks may educate and notify their customers of the likely delay in realisation of non-CTS-2010 standard instruments in view of the arrangement for clearing of such instruments at less frequent intervals.

14.1. Collection of Account Payee Cheque - Prohibition on Crediting Proceeds to Third Party Account

- a) In consonance with the legal requirements and in particular, the intent of the Negotiable Instruments Act, 1881 and with a view to protect the banks being burdened with liabilities arising out of unauthorized collections, and in the interest of the integrity and soundness of the payment and banking systems, and in order to prevent recurrence of deviations observed in the recent past, the Reserve Bank has considered it necessary to prohibit the banks from crediting 'account payee' cheque to the account of any person other than the payee named therein. Accordingly, banks were directed that they should not collect account payee cheques for any person other than the payee constituent.

Where the drawer / payee instructs the bank to credit the proceeds of collection to any account other than that of the payee, the instruction being contrary to the intended inherent character of the 'account payee' cheque, bank should ask the drawer / payee to have the cheque or the account payee mandate thereon withdrawn by the drawer. This instruction would also apply with respect to the cheque drawn by a bank payable to another bank.

- b) In order to facilitate collection of cheques from a payment system angle, account payee cheques deposited with the sub-member for credit to their customers' account can be collected by the member bank (referred to as the sponsor member) of the Clearing House. Under such arrangements, there should be clear undertaking to the effect that the proceeds of the account payee cheque will be credited to the payee's account only, upon realization.
- c) With a view to mitigate the difficulties faced by the members of co-operative credit societies in collection of account payee cheques, it is further clarified that collecting banks may consider collecting account payee cheques drawn for an amount not exceeding ` 50,000/- to the account of their customers who are co-operative credit societies, if the payees of such cheques are the constituents of such co-operative credit societies. While collecting the cheques as aforesaid, banks should have a clear representation in writing given by the co-operative credit societies concerned that, upon realization, the proceeds of the cheques will be credited only to the account of the member of the co-operative credit society who is the payee named in the cheque. This shall, however, be subject to the fulfillment of the requirements of the provisions of Negotiable Instruments Act, 1881, including Section 131 thereof.

14.2 Payment of Cheques/Drafts/Pay Orders/Banker's Cheques

With effect from April 1, 2012, banks should not make payment of cheques/drafts/pay orders/banker's cheques bearing that date or any subsequent date, if they are presented beyond the period of three months from the date of such instrument. Banks should ensure strict compliance of these directions and notify the holders of such instruments of the change in practice by printing or stamping on the cheque leaves, drafts, pay orders and banker's cheques issued on or after April 1, 2012, by issuing suitable instruction for presentment within the period of three months from the date of the instrument.

14.3 Delay in Re-presentation of Technical Return Cheques and Levy of Charges for such Returns:

Bank shall levy cheque return charges only in cases where the customer is at fault and is responsible for such returns. In cases where the cheques need to be re-presented without any recourse to the payee, such re-presentation should be made in the immediate next presentation clearing not later than 24 hours(excluding holidays) with due notification to the customers of such representation through SMS alert, email etc.

Procedure for return/ despatch of dishonoured cheques:

- (i) The paying bank should return dishonoured cheques presented through clearing houses strictly as per the return discipline prescribed for respective clearing house in terms of Uniform Regulations and Rules for Bankers' Clearing Houses. The collecting bank on receipt of such dishonoured cheques should despatch it immediately to the payees / holders.
- (ii) In relation to cheques presented direct to the paying bank for settlement of transaction by way of transfer between two accounts with that bank, it should return such dishonoured cheques to payees/ holders immediately.
- (iii) In case of dishonor / return of cheques, the paying banks should clearly indicate the return reason code on the return memo / objection slip which should also bear the signature / initial of the bank officials as prescribed in Rule 6 of the Uniform Regulations and Rules for Bankers' Clearing Houses (URRBCH).

15. Review of Policy:

The policy will be reviewed once in 3 years and will be placed before the Board for approval.